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Message Text

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21
ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 AEC-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 EB-06 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-04 SP-02 SS-15 STR-04 TRSE-00 FRB-01 PA-02 PRS-01

USIA-15 /105 W
---------- 111311
R 042320Z NOV 74
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 4659
INFO AMCONSUL CIUDAD JUAREZ UNN
AMCONSUL GUADALAJARA UNN
AMCONSUL HERMOSILLO UNN
AMCONSUL MATAMOROS UNN
AMCONSUL MAZATLAN UNN
AMCONSUL MERIDA UNN
AMCONSUL MONTERREY UNN
AMCONSUL NUEVO LAREDO UNN
AMCONSUL TIJUANA UNN

UNCLAS MEXICO 9353

E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: GOM TAX REFORM

REF: MEXICO 8229 AND 9178

PASS TREASURY

1. SUMMARY: GOM INTRODUCED TAX REFORM PACKAGE TO CONGRESS ON OCTOBER 24, INCLUDING SUBSTANTIAL INCREASE IN TAX ON GASOLINE, HIGHER TAXES ON BEER, AUTOS, YACHTS, PERSONAL INCOMES ABOVE $12,000, LUXURY RESTAURANTS AND CABARETS. GOM MAINTAINS ONLY BEER TAX WILL HIT LOWER
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INCOME GROUPS, BUT TAX ON GASOLINE HAS SPARKED CONTROVERSY AND

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BROUGHT SOME LIFE TO CONGRESS. AS EXPECTED, TAXES ON BUSINESS WERE NOT INCREASED, BUT GOM PLANS TO TIGHTEN UP ON ALLOWABLE DEDUCTIONS. END SUMMARY.

2. GOM TAX PACKAGE, PRESENTED TO CONGRESS ON OCTOBER 24, FORECAST TO BRING IN ADDITIONAL REVENUE OF 20 BILLION PESOS, OF WHICH 11 BILLION WILL COME FROM GASOLINE TAX. THIS, ALONG WITH AN ADDITIONAL 20 BILLION PESOS IN INCREASED REVENUE RESULTING FROM INFLATION AND IMPROVED ADMINISTRATION WOULD RESULT IN 1975 REVENUES OF ABOUT 145 BILLION PESOS. NEW TAXES EXPECTED TO EQUAL TWO PER-CENT OF GDP. PACKAGE JUSTIFIED ON GROUNDS IT WILL NOT AFFECT LOWER INCOME GROUPS (APART FROM BEER) WILL REDUCE GOM RECOURSE TO BOTH INTERNAL AND EXTERNAL BORROWING, WILL HAVE AN ANTI-INFLATIONARY IMPACT THOUGH SOME PRICES AT CONSUMER LEVEL WILL INCREASE, WILL REDUCE NON-ESSENTIAL CONSUMPTION, WILL PERMIT A GREATER AMOUNT OF RESOURCES TO BE ALLOCATED TO RURAL SECTOR, AND WILL HELP GET MEXICO OVER A SHORT-TERM PERIOD OF ECONOMIC DIFFICULTY.

3. MOST CONTROVERSIAL LEVY IS ONE PESO PER LITER TAX ON GASOLINE, WHICH WILL INCREASE PRICE OF CHEAPER GRADE BY 71 PERCENT AND HIGHER GRADE BY 50 PERCENT, BRINGING EXTRA TO EQUIVALENT OF US$.91 PER GALLON AND NOVA TO US.72 PER GALLON. GOM MAINTAINS TAX WILL HIT ONLY MIDDLE AND UPPER INCOME GROUPS AS 90 PERCENT OF COMMON TRANSPORT RUNS ON DIESEL FUEL OR KEROSENE AND BALANCE RECEIVES SUBSIDY. PRICES OF PETROLEUM PRODUCTS OTHER THAN GASOLINE WILL NOT BE AFFECTED. TEN PERCENT OF NEW TAX WILL GO TO STATES, THE BALANCE TO FEDERAL GOVERNMENT. RETAIL PRICES OF GASOLINE ALONG US. BORDER MAY BE LOWERED TO EQUATE THEM TO PRICES PREVAILING IN US. THIS WILL PREVENT MEXICANS FROM CROSSING BORDER TO BUY GASOLINE AND MAKING OTHER PURCHASES WHILE DOING SO.

4. INCREASED TAX ON BEER WILL COST CONSUMERS 25 CENTAVOS OR 2 CENTS MORE PER LITER. THIS IS ONLY "SACRIFICE" ASKED OF LOWER-INCOME GROUPS.

5. GROSS RECEIPTS TAXES ON AUTOMOBILES SALES SET AT 5, 10, AND 15 AND 30 PERCENT, INCREASING WITH COST OF AUTO. 30 PERCENT
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TAX ALSO APPLICABLE TO YACHTS AND AIRPLANES. LUXURY TYPE RESTAURANTS AND CABARETS WILL BE SUBJECT TO 15 PERCENT GORSS RECEIPTS TAX; HOWEVER, IN ORDER NOT TO AFFECT TOURIST TRADE, MEALS INCLUDED IN THE TOTAL HOTEL BILL OR IN A PACKAGE TOUR WILL NOT BE SUBJECT TO TAX.

6. INCOME TAX FOR INDIVIDUALS WITH ANNUAL TAXABLE INCOMES ABOVE $12,000 WILL BE HIGHER, RISING TO A MARGINAL RATE OF

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50 PERCENT, RATHER THAN 42 PERCENT, ON TAXABLE INCOMES ABOVE $120,000.

7. FEDERAL STAMP TAX ON TRANSFERS OF PERSONAL PROPERTY HELD BY FINANCIAL INSTITUTIONS WILL BE INCREASED FROM TWO TO FIVE PERCENT. VARIOUS OTHER LESS SIGNIFICANT CHANGES IN TERMS OF POTENTIAL REVENUE ARE INCLUDED IN THE PACKAGE.

8. WHILE TAXES ON BUSINESS INCOME ARE NOT BEING ALTERED, GOM IS TIGHTENING UP ON ALLOWABLE DEDUCTIONS, IN PARTICULAR THOSE THAT ARE PARTIALLY PERSONAL IN THEIR NATURE SUCH AS AUTOMOBILES AND FOREIGN TRIPS, AND FOR PAYMENTS TO COMPANY DIRECTORS. IT IS NOT YET CLEAR HOW THIS WILL BE DONE.

9. SIMULTANEOUS WITH GOM'S ANNOUNCEMENT, THE FEDERAL DISTRICT ANNOUNCED CHANGES IN ADMINISTRATION OF ITS PROPERTY TAX AS REGARDS VALUATION AND ITS INTENTION TO TAX VACANT PROPERTY IN THE CAPITAL AT A HIGHER RATE THAN IMPROVED PROPERTY. SOME CHARGES FOR PUBLIC SERVICES ARE ALSO TO BE INCREASED.

10. THE GASOLINE TAX, WHICH IS EXPECTED TO ACCOUNT FOR OVER 50 PERCENT OF THE 20 BILLION PESOS IN INCREASED REVENUE IS THE MOST CONTROVERSIAL PART OF THE PACKAGE. THIS HAS AROUSED THE DEPUTIES, MOST OF WHOM ARE PROBABLY CAR OWNERS, AND HAS BEEN THE MAIN FOCUS OF THEIR ATTENTION TO DATE. COMPLAINTS HAVE ALSO BEEN HEARD FROM INDIVIDUALS IN CAR-OWNING CLASSES SUCH AS MILITARY OFFICERS. LABOR GROUPS HAVE NOT EXPRESSED ANY OPPOSITION. SECRETARY OF FINANCE LOPEZ-PORTILLO MADE A LONG AND IMPASSIONED PLEA FOR THE ENTIRE PACKAGE BEFORE THE CHAMBER OF DEPUTIES ON OCTOBER 30, WHICH GOT MIXED REVIEWS. HE EMPHASIZED THAT THE GASOLINE TAX WILL AFFECT ONLY TWO MILLION MEXICANS AND BENEFIT OVER
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50 MILLION. IN RESPONSE TO THE OBVIOUS QUESTION AS TO WHY INCREASE GASOLINE PRICES WHEN IMPORTANT NEW OIL DISCOVERIES HAVE BEEN MADE, LOPEZ PORTILLO RESPONDED THAT THE GASOLINE BELONGS TO THE PEOPLE OF MEXICO AND NOT TO THIS GENERATION, AND THAT IT MUST BE USED FOR THE BENEFIT OF THE ENTIRE ECONOMY. HE NOTED THAT A TAX ON GASOLINE IS ONE OF THE MOST EFFICIENT MEANS TO RAISE REVENUE AND DEFENDED TAX AS A MEANS TO TRANSFER RESOURCES FROM THE URBAN TO THE RURAL SECTOR. HE ALSO DEFENDED PACKAGE AS LAST OF THE ANTI-INFLATION MEASURES.
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